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Q 35790

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q



92 14 1225

MAY 6 1992

M 92-2867

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For period ended MARCH 31, 1992

[] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number: 0-13917

PROCESSED BY

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MAY 11 1992

NUMERICA FINANCIAL CORPORATION

(Exact name of Registrant as specified in its charters)

Microfilmed by
Corp. - St. Petersburg, FL

L30

NEW HAMPSHIRE

(State or other jurisdiction of
incorporation or organization)

92-0386396

(IRS Employer
Identification Number)

P. O. BOX 10658

BEDFORD, NEW HAMPSHIRE

(Address of principal executive offices)

03110

(Zip Code)

(603) 472-4469

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No _____

At March 31, 1992, 4,452,444 shares of \$.10 par value common stock of the Registrant were outstanding.

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NUMERICA FINANCIAL CORPORATION

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NUMERICA FINANCIAL CORPORATION (Parent Company Only)

PART I FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Balance Sheets

(Dollars in Thousands)

	(Unaudited) At March 31, 1992	(Note Below) At December 31, 1991
ASSETS		
Cash and Due from Banks:		
Demand and Cash	\$ 16	\$ 25
Interest-Earning	605	867
	<u>621</u>	<u>892</u>
Litigation Deposit Held By Court (Note 2)	<u>100</u>	<u> </u>
Other Assets	<u>315</u>	<u>285</u>
	<u>\$ 1,036</u>	<u>\$ 1,177</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accrued Expenses and Other Liabilities	\$ 726	\$ 735
Commitments and Contingencies (Note 2)		
Shareholders' Equity:		
Serial preferred stock, par value \$1.00 per share;		
Authorized--2,000,000 shares; none outstanding		
Common stock, par value \$.10 per share;		
Authorized--25,000,000 shares;		
Issued and outstanding--4,452,444 shares	<u>445</u>	<u>445</u>
Paid-in Capital	<u>47,113</u>	<u>47,113</u>
Accumulated Deficit	<u>(47,248)</u>	<u>(47,116)</u>
	<u>310</u>	<u>442</u>
	<u>\$ 1,036</u>	<u>\$ 1,177</u>

Note: The balance sheet at December 31, 1991 has been derived from the audited financial statements at that date.

See accompanying notes to financial statements.

NUMERICA FINANCIAL CORPORATION (Parent Company Only)

Statements of Operations (Unaudited)

(Dollars in Thousands, Except Per Share Data)

	Three Months Ended March 31,	
	1992	1991
Income:		
Interest	\$ 9	13
Other Income	<u>123</u>	<u>3,353</u>
Total Income	131	3,366
Operating Expenses:		
Employee Compensation and Benefits	190	1,717
Occupancy	9	234
Data Processing and Other Equipment	--	577
Other Expenses	<u>64</u>	<u>838</u>
Total Operating Expenses	<u>263</u>	<u>3,366</u>
Income Before Income Taxes and Equity in Net Losses From Discontinued Operations	<u>(132)</u>	<u>--</u>
Income Taxes	--	--
Equity in Net Losses From Discontinued Operations	<u>--</u>	<u>(1,605)</u>
Net Loss	<u>\$ (132)</u>	<u>\$ (1,605)</u>
Loss Per Share	<u>\$ (.03)</u>	<u>\$ (0.36)</u>
Weighted Average Shares Outstanding	<u>4,452,444</u>	<u>4,452,444</u>

See accompanying notes to financial statements.

NUMERICA FINANCIAL CORPORATION (Parent Company Only)

Statement of Cash Flows (Unaudited)

(Dollars in Thousands)

Three Months Ended
March 31,

1992

Cash Flows from Operating Activities:

Net Loss

\$ (132)

Adjustments to Reconcile Net Loss to Net Cash
Absorbed by Operating Activities:

Increase or Decrease in:

Litigation Deposit Held by Court

(100)

Other Assets

(30)

Accrued Expenses and Other Liabilities

(9)

Total Adjustments

(271)

Net Cash Absorbed by Operating Activities

(271)

Net Decrease in Cash and Cash Equivalents

(271)

Cash and Cash Equivalents, Beginning of Period

892

CASH AND CASH EQUIVALENTS, END OF PERIOD

\$ 621

See accompanying notes to financial statements.

NUMERICA FINANCIAL CORPORATION (Parent Company Only)

Notes to Unaudited Financial Statements

NOTE 1. CORPORATE STATUS

Background

Numerica Financial Corporation (the Parent "Company"), prior to October 10, 1991, was a multi-bank savings and loan holding company and owned all of the outstanding common stock of Numerica Savings Bank, FSB, Manchester, New Hampshire ("Numerica") and HomeBank, FSB, Laconia, New Hampshire ("Home"). Numerica and Home represented substantially all of the gross revenues, expenses, assets and liabilities of the Company. The Company had previously operated other subsidiaries, however these subsidiaries were either liquidated or merged with Numerica and Home such that as of September 30, 1991, the Company had no other operating subsidiaries other than Numerica and Home.

The financial condition of the Company, Numerica and Home deteriorated steadily during the late 1980's and early 1990's. The losses incurred during this time frame were almost entirely related to the severe economic decline which persisted in New Hampshire and resulted in a significant and prolonged recession. This economic decline manifested itself by increasing unemployment, high levels of business failures, declining population within the State and a significant decline in real estate values, especially commercial construction and development properties. These conditions, in turn, resulted in unprecedented levels of non-performing assets and loan losses at Numerica and Home which were the primary cause of the Company's significant consolidated losses during this time frame.

Regulatory Actions

These losses, as discussed above, eroded Numerica and Home's capital which caused them to be subjected, beginning in 1989, to increasingly harsh regulatory actions, including demands for new capital. By 1991, the Company was subject to a Cease and Desist Order and both institutions were operating under Capital Directives which were issued by the Office of Thrift Supervision ("OTS"). These Directives defined the steps and timing associated with the required recapitalization of the institutions and also incorporated a number of significant operating restrictions requiring prior OTS approval in certain circumstances pertaining to lending, investments and general operating activities. During 1991, the Company attempted to comply with these directives and vigorously searched for sources of new capital sufficient to satisfy these regulatory demands. Unfortunately, given the economic malaise in New England and the general deterioration of the entire U.S. banking system, these efforts were not successful.

On June 17, 1991 the Federal Deposit Insurance Corporation ("FDIC") began to resolve New Hampshire's banking crisis by holding a Bidders Conference which was designed to encourage interested investors to submit a bid for the acquisition of one or more of seven troubled financial institutions in New Hampshire, including Numerica. It was expected that the review of the bids submitted would be completed and a winning bidder(s) announced during October of 1991. At the conclusion of this process, it was anticipated that Numerica would no longer be owned by the Company and that Home would represent the Company's only remaining banking subsidiary.

NUMERICA FINANCIAL CORPORATION (Parent Company Only)

Notes to Unaudited Financial Statements

NOTE 1. CORPORATE STATUS (CONTINUED)

Regulatory Actions (Continued)

Simultaneous with the Bidders Conference, the Company was instructed by the FDIC to discontinue its efforts to recapitalize Numerica as required under the Cease and Desist Order previously issued by the OTS. The Company had been continuing efforts to recapitalize Home. The Company had previously predicted that, if efforts to recapitalize Home were unsuccessful, Home would likely be subjected to further regulatory and statutory sanctions through the OTS's exercise of its supervisory and enforcement authority, ultimately leading to the appointment of a conservator by, or receivership under, an agency of the federal government. In that event, the Company indicated it would lose its total investment in both Numerica and Home, thereby likely resulting in a total loss of shareholders' value.

On October 10, 1991, various governmental banking agencies took possession of eight financial institutions representing nearly 40% of New Hampshire's banking assets. More specifically, effective that same date, the OTS took possession of the assets, property and business of Numerica and Home. The FDIC was appointed as the receiver for Numerica, while the Resolution Trust Corporation ("RTC") was appointed the receiver for Home. Certain assets, deposits and liabilities of Numerica and Dartmouth Bank and New Hampshire Savings Bank, both of which were also placed in receivership on October 10, were then transferred to New Dartmouth Bank. The receiver for Home has transferred certain assets, deposits and liabilities of Home to Home Bank Federal Savings Association.

As a result, effective October 10, 1991, the Company lost control of and authority over all of the assets and liabilities of Numerica and Home including the disposition of the remaining assets and the resolution of any claims against these entities. Since, at the date of regulatory resolution, the recorded liabilities of Numerica and Home exceeded their recorded assets, the Company does not expect to realize any value from its investments in Numerica and Home. The Company's only remaining assets on March 31, 1992, after a total loss of its investments in Numerica and Home, are cash and short term investments of approximately \$ 600,000 and the cash value of life insurance policies which fund a Supplemental Income Security Plan for selected employees of the Company, Numerica or Home. None of these assets nor the proceeds thereof will be available for distribution to stockholders unless and until all of the Company's creditors' claims, including certain matters presently in litigation and/or potential claims, are satisfied. It is expected that these remaining assets will be utilized to satisfy creditor and other potential claims, defend and/or settle existing and potential litigation and position the Company for legal dissolution. Based on the current financial condition of the Company, as discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein, it appears that any significant distribution to shareholders is unlikely. Accordingly, the ability of the Company to continue as a going concern is subject to significant uncertainty and substantial doubt.

These uncertainties raised substantial doubt about whether the Company, Numerica and Home could continue to operate as going concerns. Previous consolidated unaudited financial statements have not included any adjustments relating to the recoverability of recorded asset amounts or the amounts of liabilities that might be incurred should the Company, Numerica or Home be unable to continue as a going concern(s). Because of the significance of the uncertainty concerning these matters, KPMG Peat Marwick was unable to express and did not express an opinion on the financial statements of the Company and subsidiaries as of and for the years ended December 31, 1991 and 1990.

NUMERICA FINANCIAL CORPORATION (Parent Company Only)

Notes to Unaudited Financial Statements

NOTE 2. SIGNIFICANT UNCERTAINTIES

Litigation

State Mutual

State Mutual Life Assurance Company of America ("State Mutual") has sent the Company notices of attornment, and of default and demand for payment of rent relating to a lease of the 8th floor of the Company's former offices ("Offices"). The Company ceased occupying the Offices on October 10, 1991 as a result of the receivership of Numerica Savings Bank by the FDIC. The Company believes that the lease was terminated by the action of the FDIC and State Mutual in depriving the Company access to and use of the Offices since October 10, 1991. The Company has filed in New Hampshire State Court a Petition for Declaratory Judgement and Other Relief against State Mutual to determine the status of the lease under which State Mutual claims to have succeeded to the rights of Hampshire Management, Inc. ("HMI"), as landlord through foreclosure on its mortgage on the building. HMI was a subsidiary of Numerica which owned the building containing the Offices. The case has been removed by State Mutual to the United States District Court for the District of New Hampshire and State Mutual has filed an Answer and Counterclaim alleging default of the lease and seeking payment of all amounts paid into court and other unspecified damages. The Company has responded to these claims. As a result of the FDIC receivership of Numerica, HMI has been controlled by the FDIC since October 10, 1991. The Company, during the first quarter of 1992, paid \$100,000 into Court covering the rental sums allegedly due since November 1, 1991. These payments are reflected in the March 31, 1992 Balance Sheet as "Litigation Deposit Held By Court". The Company intends to pay approximately \$20,000 into court on a monthly basis. The potential exposure to the Company should it be declared to be in default and should State Mutual be allowed to accelerate the rent, could be \$4.5-\$5.0 million reduced by any recovery to State Mutual through the re-leasing of the Offices. In the event that the Court finds that the lease has been terminated as claimed by the Company, it is probable that the amounts paid into the Court would be returned to the Company and that it would have no further liability pursuant to the lease. In the event that the Court finds the lease is still in effect, the Company believes that it will not be found to be in default under the lease and that the lease will be found to remain in effect with the Company having an ongoing liability to pay rent in the approximate amount of \$20,000 per month; however, in such event the Company also believes that it would also be entitled to an abatement of rent for the period it was unable to occupy the Offices. The Company believes it is reasonably possible that it will prevail and that the lease will be found to have been terminated with no further liability to the Company.

NUMERICA FINANCIAL CORPORATION (Parent Company Only)

Notes to Unaudited Financial Statements

NOTE 2. SIGNIFICANT UNCERTAINTIES

Litigation (Continued)

Meeks

In early 1987, Numerica Financial Services, Inc. ("NFSI") (a now dissolved Florida based mortgage banking subsidiary of Numerica Savings Bank) executed an employment contract with Gary Meeks with term expiring December 31, 1990. As NFSI activities were winding down, Meeks left his position at NFSI on October 31, 1989 and commenced employment with another financial institution shortly thereafter. NFSI then terminated payments under the employment contract on grounds of substitutive employment. Shortly thereafter, Mr. Meeks brought suit in Florida State Court to enforce the employment contract.

After discovery and while awaiting trial, the Florida State Court refused a continuance and Florida counsel for the Company, on an unauthorized basis, stipulated to a Default Judgement ("Judgement"), without trial on the merits, against the Company, NFSI and Numerica Savings Bank in the amount of \$168,428.00 plus interest. This Judgement, which arose from a major procedural dispute, was immediately appealed by all of the Defendants and the Company has pending a motion to alter the Judgement in the Florida court. While the appeal was pending, Numerica Savings Bank was taken over by the FDIC as Receiver on October 10, 1991 and the FDIC, on October 23, 1991, removed the Meeks litigation to United States District Court, Middle District of Florida, Tampa Division. Mr. Meeks has filed a Motion for Entry of Judgment against the Company to the above described court to which the Company has objected. The Company has also sought to have this court consider a Motion to Alter or Amend this Judgement due to the major procedural errors which took place and allow a trial on the merits. On September 19, 1991, Mr. Meeks initiated a companion action in New Hampshire (first in the State Superior Court) to enforce his Florida Judgement. Although this action was removed to the Federal Court by the FDIC, it was later remanded to New Hampshire Superior Court, where Mr. Meeks has pending motions for summary judgement and pre-judgement attachment. A hearing was held on the prejudgment attachment motion on April 16, 1992. The Hillsborough County Superior Court denied Mr. Meeks motion for prejudgment attachment on April 27, 1992. The Company believes that defenses exist to all of the claims asserted by Mr. Meeks and seeks only to have a full hearing in trial court on any claims against it. In the event that the Company's motions in the Florida court are unsuccessful, it may be required to post a bond in the amount of \$200,000 to stay execution of the Judgement pending appeal.

NUMERICA FINANCIAL CORPORATION (Parent Company Only)

Notes to Unaudited Financial Statements

NOTE 2. SIGNIFICANT UNCERTAINTIES

Litigation (Continued)

Kuehl

By Writ dated July 26, 1991, David Kuehl and Jean Kuehl brought suit in Rockingham County Superior Court in New Hampshire seeking unspecified damages against Numerica Savings Bank, HomeBank, FSB, Numerica Financial Corporation, several present and former officers of HomeBank, FSB and all of the directors of HomeBank, FSB, Numerica Savings Bank and Numerica Financial Corporation, in a thirty six (36) count lender liability action. Mr. and Mrs. Kuehl's complaint alleges misrepresentations by certain officers of HomeBank, FSB to Mr. Kuehl in connection with HomeBank's financing of Mr. and Mrs. Kuehl's purchase of a four (4) family apartment house in North Conway, New Hampshire. Mr. and Mrs. Kuehl are claiming the alleged misrepresentations led to their default on the financing for the North Conway, New Hampshire property. The default, they allege, led to a default on approximately ten (10) loans secured by other commercial properties they had financed through Numerica Savings Bank and HomeBank, FSB. The Kuehls also claim defamation of credit and breach of confidentiality. The case was removed to the United States District Court for the District of New Hampshire on October 25, 1991. On February 7, 1992, the Kuehls filed a thirty-six count, Amended Complaint with the United States District Court for the District of New Hampshire. The 36 counts make essentially the same allegations as the Writ originally filed in the Rockingham County Superior Court. The Kuehls have now specifically alleged that they have been damaged in the amount of \$3,000,000. The defendants have filed a Motion to Dismiss all counts against the individual defendants and the Company. The Company intends to vigorously defend the case and does not believe a recovery against the Company or its directors is likely.

Lawton

On July 5, 1991, Eugene Lawton, former corporate auditor of the Company, brought suit in Federal District Court in the District of New Hampshire against the Company claiming wrongful discharge and wrongful infliction of emotional distress. Mr. Lawton's employment with the Company was terminated effective as of April 13, 1990 at which time his annual salary was approximately \$52,000. The Company filed an answer to the complaint on August 12, 1991. A pretrial conference was held on October 2, 1991 and the case is now in discovery. Mr. Lawton's demand is for reinstatement and for actual and enhanced damages in the amount of \$500,000. The Company denies that Mr. Lawton's termination was wrongful or that it otherwise wrongly caused him harm and the Company intends to vigorously defend the case and does not believe a recovery against the Company is likely.

NUMERICA FINANCIAL CORPORATION (Parent Company Only)

Notes to Unaudited Financial Statements

NOTE 2. SIGNIFICANT UNCERTAINTIES

Litigation (Continued)

Regulatory Uncertainties

On October 10, 1991, the OTS took possession of the assets, property and business of Numerica and Home. The Federal Deposit Insurance Corporation was appointed as the receiver for Numerica, while the Resolution Trust Corporation was appointed the receiver for Home. Certain assets, deposits and liabilities of Numerica and other banks that were also placed in receivership on October 10, were then transferred to New Dartmouth Bank. The receiver for Home has transferred certain assets, deposits and liabilities of Home to Home Bank Federal Savings Association. While the Company has not received any formal demands or claims against it from either the FDIC or the RTC, it is not known whether the liquidation process underway related to Numerica or Home will result in any demands or claims by the FDIC or RTC against the Company.

As a result of these regulatory actions, the Company, by operation of law, no longer is a savings and loan holding company. The Company has notified the OTS formally of the fact and has requested that the OTS formally acknowledge the deregistration of the Company. The Company, at the request of the OTS, has completed certain forms and provided certain information to the OTS and has recently been notified that the deregistration process will begin following the resolution of the Company's Supplemental Income Security Plan. The Company is currently discussing the termination of this plan with the FDIC and the RTC. The OTS has indicated that they will adhere to the guidance from these regulatory agencies in the resolution of this issue. The Company believes that following the resolution of this issue that the OTS will formally acknowledge that the Company is no longer a savings and loan holding company and that ongoing regulatory supervision will no longer be provided.

In connection with the formation of the Company and the acquisition of Home, the Company was requested by the OTS to stipulate to a Regulatory Capital Maintenance Resolution. The Stipulation required, among other things, that the Company provide sufficient capital to Numerica and Home to enable them to maintain compliance with regulatory capital requirements during the time that the Company controlled both entities. At the time that Numerica and Home were placed into receivership by the OTS, neither institution was in compliance with existing regulatory requirements and the Company did not have sufficient financial resources to enable these entities to achieve regulatory capital compliance. While nothing has been initiated to date, the regulatory agencies could seek to initiate administrative or judicial proceedings against the Company for non-compliance with this Stipulation.

On August 2, 1991, the OTS directed the Company to discontinue retirement benefit payments to the retirees under the Numerica Financial Corporation Supplemental Income Security Plan (the "Security Plan"). Further, the OTS directed the Company to cease any additional premium payments on the life insurance policies used to fund the Security Plan obligations. The Company complied with these directions and maintained a steady dialogue with the OTS in an effort to terminate the Security Plan and amicably resolve this matter.

NUMERICA FINANCIAL CORPORATION (Parent Company Only)

Notes to Unaudited Financial Statements

NOTE 2. SIGNIFICANT UNCERTAINTIES

Litigation (Continued)

Regulatory Uncertainties (Continued)

On October 31, 1991, the OTS directed the Company to liquidate the life insurance policies and pay the cash values to the receivers for Numerica and Home. In light of the Company's obligations to the Security Plan participants/beneficiaries, the Company has not complied with this direction. The Company has and continues to work diligently to resolve this matter. The Company is currently discussing the Security Plan resolution with the receiver for Numerica (the FDIC) and the receiver for Home (the RTC). The OTS has recently indicated that they will adhere to the guidance provided by these regulatory agencies.

Two former employees have recently demanded payment from the Company under the Security Plan. In addition, one retired participant has recently passed away. The OTS directive to discontinue payments to the retired participants/beneficiaries has subjected these individuals to considerable hardship. It is likely that litigation could ensue if the Company is unsuccessful in obtaining regulatory approval to terminate the Security Plan.

NOTE 3. SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Principles of Consolidation

The accompanying financial statements include the accounts of Numerica Financial Corporation, the parent company only. Financial statements filed pursuant to the Securities and Exchange Act of 1934, prior to September 30, 1991, were on a consolidated basis, reflecting the operations of the Company and its subsidiaries, including Numerica and Home. However, given the developments discussed in Note 1 above, the financial statements included herein have been presented on a parent company only basis. The financial statements contained herein reflect, on an equity basis, the accounts of Numerica and Home and their operating results through October 10, 1991. During the second quarter of 1991, the cumulative losses from the Company's banking subsidiaries exceeded the Company's aggregate investment in Subsidiary Bank. As a result, consistent with generally accepted accounting principles, losses have been recorded only to the extent of the Company's investment in these banking subsidiaries. These operating results are reflected in the accompanying financial statements as discontinued operations.

These financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and thereby be exposed to realization of its assets and satisfaction of its liabilities and commitments at amounts different from those in the financial statements.

NUMERICA FINANCIAL CORPORATION (Parent Company Only)

Notes to Unaudited Financial Statements

NOTE 3. SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (CONTINUED)

Basis of Presentation-Going Concern

Historically, the Company has not conducted substantial operations of its own. Its primary purpose was to act as a holding company for and provide certain consolidated services to its banking subsidiaries. As a result of the regulatory resolution of these banking subsidiaries, the Company has been left with a nominal net worth and no ongoing business activity. Additionally, the outcome of certain potential and contingent liabilities, as described in Note 2, are unknown. The Board of Directors has requested that management continue its efforts to resolve existing and potential liabilities and prepare the Company for dissolution. Management has indicated that no distribution to stockholders will take place unless and until all of the Company's creditors' claims, including certain matters presently in litigation and/or potential claims, are satisfied. Management expects that remaining assets will be utilized to satisfy creditor and other potential claims, defend and/or settle existing and potential litigation and position the Company for legal dissolution. Based on the current financial condition of the Company, Management believes that any significant distribution to shareholders is unlikely. Accordingly, the ability of the Company to continue as a going concern is subject to significant uncertainty and substantial doubt.

NOTE 4. BENEFITS

Background

The Company historically sponsored benefit programs covering all employees in the consolidated group. All costs associated with these programs were allocated to the individual entities within the consolidated group for which the eligible employees were either directly employed or dedicated to functions which supported the operations of these entities. In anticipation of the regulatory resolution (see Note 1), management began a process in the third quarter of 1991 to terminate these programs or transfer sponsorship to the individual entities, primarily Numerica and/or Home. The Company, as sponsor, is responsible for the maintenance of these plans, including the costs associated therewith, to the extent reimbursement from the individual plan or the appropriate entities is not available. The Company, as sponsor, is also responsible for the costs and potential liabilities associated with the termination of these programs, again to the extent reimbursement from the individual plan or the appropriate entities is not available. The Company will be entitled, as sponsor, to any funds which may remain following the termination of these programs.

NUMERICA FINANCIAL CORPORATION (Parent Company Only)

Notes to Unaudited Financial Statements

NOTE 4. BENEFITS (Continued)

a) Retirement Plan

The Company has maintained a noncontributory defined benefit plan covering all eligible employees of the Company, Numerica and Home. The plan was a final average pay plan with benefits based on the average salary rates on each January 1. The Company policy has been to fund the cost of benefits expected to accrue during the year plus amortization of any unfunded accrued liability that had accumulated prior to the valuation date. Pension related costs were allocated to the banking subsidiary for which the eligible employees either were directly employed or dedicated to functions to support the operations of these entities.

On June 18, 1991, the Board of Directors of the Company approved the termination of this retirement plan effective September 1, 1991. Based on the best information available at this time, management estimates that approximately \$ 5,000 will revert to the Company upon receipt of final Internal Revenue Service ("IRS") termination approval. To the extent that the IRS requires distribution adjustments or other liabilities arise, this estimated reversion amount will be reduced or eliminated. To the extent no funds remain from the plan to fund these potential obligations, the Company will be responsible to fund these obligations from other corporate assets. Given these uncertainties the Company has delayed the recording of the effects of this termination until the final IRS approval has been received. Based on the information available at this time, this termination would result in an estimated gain of approximately \$1,085,000. This gain represents the excess of the market value of plan assets as of September 1, 1991, the curtailment date, beyond that required for the estimated settlement of the plan liabilities. This gain would be partially offset by an estimated settlement loss of approximately \$575,000. This loss effectively represents the increased cost, beyond that estimated at the curtailment date, associated with the purchase of annuities for plan liability settlements. The net gain of \$510,000 approximates the remaining retirement plan liability which is included in the March 31, 1992 Balance Sheet entitled "Accrued Expenses and Other Liabilities".

b) Capital Accumulation Plan

The Company has maintained a qualified profit-sharing plan under section 401(k) of the Internal Revenue Code. This plan, known as the Capital Accumulation Plan, has been entirely voluntary and generally available to all eligible employees of entities within the consolidated group. This plan has allowed participating employees to enter into salary reduction agreements, whereby certain portions of their base compensation are deferred and invested by the plan trustee. The Company, subject to certain conditions, was required to match 25% of the first 6% of base compensation deferred by each employee. All costs associated with this plan were allocated to the banking subsidiary for which the eligible employees either were directly employed or dedicated to functions to support the operations of these entities.

The Board of Directors of the Company voted on November 21, 1991, to terminate the Capital Accumulation Plan effective October 12, 1991. IRS approval of this termination was received on February 18, 1992 and final distributions to plan participants were effected on March 27, 1992. The costs associated with the termination of the plan, in accordance with the plan documentation, are being absorbed by the Company and all fund assets have been fully distributed to the plan participants.

NUMERICA FINANCIAL CORPORATION (Parent Company Only)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

INTRODUCTION

Numerica Financial Corporation (the Parent "Company"), was a multi-bank savings and loan holding company which owns all of the outstanding common stock of Numerica Savings Bank, FSB ("Numerica") and HomeBank, FSB ("Home"). Prior to October 10, 1991, Numerica and Home accounted for substantially all of the gross revenues, expenses, assets and liabilities of the Company. At September 30, 1991, the Company had no other operating subsidiaries other than Numerica and Home.

Management's Discussion and Analysis of Financial Condition and Results of Operations, which follows, should be read in conjunction with the Financial Statements of the Parent Company Only and related notes which are contained elsewhere in this document. The interim financial information presented herein as of March 31, 1992 and for the three months ended March 31, 1992 and 1991 is unaudited. The financial information as of December 31, 1991 was derived from the Form 10-K previously filed by the Company.

REGULATORY ACTIONS

On October 10, 1991, various governmental banking agencies took possession of eight financial institutions representing nearly 40% of New Hampshire's banking assets. These actions, which are discussed in greater detail in Note 1 of the Notes to Unaudited Financial Statements contained elsewhere herein, resulted from the severe recession which has seriously eroded real estate values and undermined the general economic viability of the Northeast and New Hampshire in particular. More specifically, effective that same date, the OTS took possession of the assets, property and business of Numerica and Home. The Federal Deposit Insurance Corporation ("FDIC") was appointed as the receiver for Numerica, while the Resolution Trust Corporation ("RTC") was appointed the receiver for Home. Certain assets, deposits and liabilities of Numerica and Dartmouth Bank and New Hampshire Savings Bank, both of which were also placed in receivership on October 10, were then transferred to New Dartmouth Bank. The receiver for Home has transferred certain assets, deposits and liabilities of Home to Home Bank Federal Savings Association.

GOING CONCERN UNCERTAINTY

As a result of the regulatory actions highlighted in the preceding paragraph, the Company lost control of and authority over all of the assets and liabilities of Numerica and Home including the disposition of the remaining assets and the resolution of any claims against these entities. Since the recorded liabilities of Numerica and Home exceeded their recorded assets at September 30, 1991, the Company does not expect to realize any value from its investments in Numerica and Home. The Company's only remaining assets on October 11, 1991, after a total loss of its investments in Numerica and Home, are cash and short term investments of approximately \$1.1 million and the cash value of life insurance policies which fund a Supplemental Retirement Plan for selected employees of the Company, Numerica and Home. None of these assets nor the proceeds thereof will be available for distribution to stockholders unless and until all of the Company's creditors' claims, including certain matters presently in litigation and/or potential claims, are satisfied. It is expected that these remaining assets will be utilized to satisfy creditor and other potential claims, defend and/or settle existing and potential litigation and position the Company for legal dissolution. Based on the current financial condition of the Company, as discussed below, it appears that a total loss of shareholders' value is likely.

NUMERICA FINANCIAL CORPORATION (Parent Company Only)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

GOING CONCERN UNCERTAINTY (CONTINUED)

Historically, the Company has not conducted substantial operations of its own. Its primary purpose was to act as a holding company for its banking subsidiaries and provide certain consolidated services to same. As a result of the regulatory resolution of these banking subsidiaries, the Company has been left with a nominal net worth and no ongoing business activity. The Board of Directors has requested that management continue its efforts to resolve existing and potential liabilities and prepare the Company for dissolution. Management has indicated that no distribution will be available for shareholders unless and until all of the Company's creditors' claims, including certain matters presently in litigation and/or potential claims, are satisfied. Management expects that these remaining assets will be utilized to satisfy creditor and other potential claims, defend and/or settle existing and potential litigation and position the Company for legal dissolution. Based on the current financial condition of the Company, as discussed herein, it appears that any significant distribution to shareholders is unlikely. Accordingly, the ability of the Company to continue as a going concern is subject to significant uncertainty and substantial doubt.

FINANCIAL CONDITION

Total assets at March 31, 1992 were \$ 1.036 million, a decline of \$ 141,000 from \$ 1.177 million at December 31, 1991. This decline is primarily attributable to a decline in liquid assets which were utilized to fund operating costs for the first quarter of 1992. Cash and Due From Banks declined by \$ 271,000 from \$ 892,000 at December 31, 1991 to \$ 621,000 at March 31, 1992. In addition to funding the first quarter operating loss of \$132,000 (See discussion of Results of Operations below), \$120,000 was utilized to fund a deposit with the court related to the State Mutual litigation matter. As described more fully in Note 2 to the Unaudited Financial Statements, it is likely that additional deposits of \$20,000 per month will be required until this matter is resolved.

The Company's common shares have historically traded on the National Association of Securities Dealers Automated Quotations ("NASDAQ") National Market System ("NMS") under the symbol "NUME". In July 1991, the Company was notified by the NASDAQ that they were reviewing the continuing listing eligibility of the Company's common stock. On July 22, 1991, NASDAQ removed the Company's stock from trading on the NASDAQ NMS and the Company's stock began trading on the NASDAQ Over-the-Counter ("OTC") market. On August 23, 1991, the Company notified the NASDAQ that it would not interpose an objection to the removal of the Company's common shares from listing and registration on the NASDAQ. The Company was notified on August 29, 1991 by NASDAQ that the Company's common stock had been removed from the NASDAQ OTC market effective that same date. As a result, the Company's stock no longer trades on any organized market and no active over-the-counter market has developed for the stock.

NUMERICA FINANCIAL CORPORATION (Parent Company Only)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS

The Company recorded an operating loss of \$ 132,000 for the three months ended March 31, 1992 versus a loss of \$ 1,605,000 for the same period in 1991. The 1991 loss was entirely attributable to the continuing recognition on an equity basis of the operating losses of the Company's previously controlled banking subsidiaries, Numerica and Home. During 1991, New Hampshire and the entire New England region were in the midst of a general economic decline which caused real estate, especially certain commercial construction and development properties to lose value. This in turn resulted in unprecedented levels of non-performing assets and loan loss provisions which were major contributors to the losses of these banking subsidiaries. These losses are now included in the Statement of Operations as "Equity in Net Losses From Discontinued Operations" resulting from the regulatory actions discussed above.

During the second quarter of 1991, the cumulative losses from the Company's banking subsidiaries exceeded the Company's aggregate investment in Subsidiary Banks. As a result, consistent with generally accepted accounting principles, losses have been recorded to the extent of the Company's investment in these banking subsidiaries. Accordingly, net losses from these banking subsidiaries have not been included in the operating results for the period subsequent to June 30, 1991.

During the first quarter of 1991, excluding the loss recognition from these banking subsidiaries, the Company essentially operated on a break-even basis with operating revenues approximating operating expenses. During this time frame, the Company's primary activities were related to providing certain consolidated services on a cost basis to its banking subsidiaries. In the Statement of Operations, Operating Costs represent the cost of providing such services, while the reimbursement received for these services is included in Other Income. The extent of the services provided by the Company increased significantly in 1991 as the Company attempted to consolidate as many functions as possible in order to improve the operating efficiencies of these subsidiary institutions. Immediately following the October 10, 1991 regulatory actions, the Company ceased providing any such services to these entities.

The net loss incurred of \$132,000 for the three months ended March 31, 1992 is attributable to efforts to resolve outstanding and potential litigation matters, terminate retirement and welfare benefit programs covering individuals previously employed by the Company, Numerica and Home and preparing the Company for dissolution. Management expects the Company to be unprofitable in future operating periods due to its limited financial resources and the ongoing costs associated with resolving outstanding and potential liabilities and preparing the Company for dissolution. Other Income recorded during this period represents the return of insurance premiums on certain terminated policies.

NUMERICA FINANCIAL CORPORATION (Parent Company Only)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Income Taxes

Due to various taxable events that could occur regarding the anticipated resolution of Numerica, the Company elected in June 1991 to deconsolidate for federal income tax purposes effective January 1, 1990, thereby requiring each entity to be responsible only for its individual tax obligation. This deconsolidation has been approved by the OTS, however the Company is still awaiting final IRS approval. The Company has informally agreed to assist in fulfilling the responsibility, to the extent possible given the limited resources of the Company, for filing separate tax returns covering all entities within the consolidated group for 1991 through October 10, the date of regulatory resolution of the Company's subsidiaries. The Company does not have any recoverable taxes in prior years to which its current loss may be carried back. As such, the Company will not be able to obtain any tax benefit on the loss which it has incurred unless it generates taxable income in future periods. If the Company has taxable income in future periods, it will have to provide for taxes at the applicable federal and state tax rates, subject to any loss carryforward which may be available. It is not expected that the Company will have taxable income prospectively, since it does not have any significant income producing activities.

NUMERICA FINANCIAL CORPORATION (Parent Company Only)

Part II OTHER INFORMATION

Item 1. Legal Proceedings

State Mutual

State Mutual Life Assurance Company of America ("State Mutual") has sent the Company notices of attornment, and of default and demand for payment of rent relating to a lease of the 8th floor of the Company's former offices ("Offices"). The Company ceased occupying the Offices on October 10, 1991 as a result of the receivership of Numerica Savings Bank by the FDIC. The Company believes that the lease was terminated by the action of the FDIC and State Mutual in depriving the Company access to and use of the Offices since October 10, 1991. The Company has filed in New Hampshire State Court a Petition for Declaratory Judgement and Other Relief against State Mutual to determine the status of the lease under which State Mutual claims to have succeeded to the rights of Hampshire Management, Inc. ("HMI"), as landlord through foreclosure on its mortgage on the building. HMI was a subsidiary of Numerica which owned the building containing the Offices. The case has been removed by State Mutual to the United States District Court for the District of New Hampshire and State Mutual has filed an Answer and Counterclaim alleging default of the lease and seeking payment of all amounts paid into court and other unspecified damages. The Company has responded to these claims. As a result of the FDIC receivership of Numerica, HMI has been controlled by the FDIC since October 10, 1991. The Company, during the first quarter of 1992, paid \$100,000 into Court covering the rental sums allegedly due since November 1, 1991. These payments are reflected in the March 31, 1992 Balance Sheet as "Litigation Deposit Held By Court". The Company intends to pay approximately \$20,000 into court on a monthly basis. The potential exposure to the Company should it be declared to be in default and should State Mutual be allowed to accelerate the rent, could be \$4.5-\$5.0 million reduced by any recovery to State Mutual through the re-leasing of the Offices. In the event that the Court finds the lease is still in effect, the Company believes that it will not be found to be in default under the lease and that the lease will be found to remain in effect with the Company having an ongoing liability to pay rent in the approximate amount of \$20,000 per month; however, in such event the Company also believes that it would also be entitled to an abatement of rent for the period it was unable to occupy the Offices. The Company believes it is reasonably possible that it will prevail and that the lease will be found to have been terminated with no further liability to the Company.

Meeks

In early 1987, Numerica Financial Services, Inc. ("NFSI") (a now dissolved Florida based mortgage banking subsidiary of Numerica Savings Bank) executed an employment contract with Gary Meeks with term expiring December 31, 1990. As NFSI activities were winding down, Meeks left his position at NFSI on October 31, 1989 and commenced employment with another financial institution shortly thereafter. NFSI then terminated payments under the employment contract on grounds of substitutive employment. Shortly thereafter, Mr. Meeks brought suit in Florida State Court to enforce the employment contract.

NUMERICA FINANCIAL CORPORATION (Parent Company Only)

Part II OTHER INFORMATION

Item 1. Legal Proceedings (Continued)

Meeks (Continued)

After discovery and while awaiting trial, the Florida State Court refused a continuance and Florida counsel for the Company, on an unauthorized basis, stipulated to a Default Judgement ("Judgement"), without trial on the merits, against the Company, NFSI and Numerica Savings Bank in the amount of \$168,428.00 plus interest. This Judgement, which arose from a major procedural dispute, was immediately appealed by all of the Defendants and the Company has pending a motion to alter the Judgement in the Florida court. While the appeal was pending, Numerica Savings Bank was taken over by the FDIC as Receiver on October 10, 1991 and the FDIC, on October 23, 1991, removed the Meeks litigation to United States District Court, Middle District of Florida, Tampa Division. Mr. Meeks has filed a Motion for Entry of Judgment against the Company to the above described court to which the Company has objected. The Company has also sought to have this court consider a Motion to Alter or Amend this Judgement due to the major procedural errors which took place and allow a trial on the merits. On September 19, 1991, Mr. Meeks initiated a companion action in New Hampshire (first in the State Superior Court) to enforce his Florida Judgement. Although this action was removed to the Federal Court by the FDIC, it was later remanded to New Hampshire Superior Court, where Mr. Meeks has pending motions for summary judgement and pre-judgment attachment. A hearing was held on the prejudgment attachment motion on April 16, 1992. The Hillsborough County Superior Court denied Mr. Meeks motion for prejudgment attachment on April 27, 1992. The Company believes that defenses exist to all of the claims asserted by Mr. Meeks and seeks only to have a full hearing in trial court on any claims against it. In the event that the Company's motions in the Florida court are unsuccessful, it may be required to post a bond in the amount of \$200,000 to stay execution of the Judgement pending appeal.

Kuehl

By Writ dated July 26, 1991, David Kuehl and Jean Kuehl brought suit in Rockingham County Superior Court in New Hampshire seeking unspecified damages against Numerica Savings Bank, HomeBank, FSB, Numerica Financial Corporation, several present and former officers of HomeBank, FSB and all of the directors of HomeBank, FSB, Numerica Savings Bank and Numerica Financial Corporation, in a thirty six (36) count lender liability action. Mr. and Mrs. Kuehl's complaint alleges misrepresentations by certain officers of HomeBank, FSB to Mr. Kuehl in connection with HomeBank's financing of Mr. and Mrs. Kuehl's purchase of a four (4) family apartment house in North Conway, New Hampshire. Mr. and Mrs. Kuehl are claiming the alleged misrepresentations led to their default on the financing for the North Conway, New Hampshire property. The default, they allege, led to a default on approximately ten (10) loans secured by other commercial properties they had financed through Numerica Savings Bank and HomeBank, FSB. The Kuehls also claim defamation of credit and breach of confidentiality. The case was removed to the United States District Court for the District of New Hampshire on October 25, 1991. On February 7, 1992, the Kuehls filed a thirty-six count, Amended Complaint with the United States District Court for the District of New Hampshire. The 36 counts make essentially the same allegations as the Writ originally filed in the Rockingham County Superior Court. The Kuehls have now specifically alleged that they have been damaged in the amount of \$3,000,000. The defendants have filed a Motion to Dismiss all counts against the individual defendants and the Company. The Company intends to vigorously defend the case and does not believe a recovery against the Company or its directors is likely.

NUMERICA FINANCIAL CORPORATION (Parent Company Only)

Part II OTHER INFORMATION

Item 1. Legal Proceedings (Continued)

Lawton

On July 5, 1991, Eugene Lawton, former corporate auditor of the Company, brought suit in Federal District Court in the District of New Hampshire against the Company claiming wrongful discharge and wrongful infliction of emotional distress. Mr. Lawton's employment with the Company was terminated effective as of April 13, 1990 at which time his annual salary was approximately \$52,000. The Company filed an answer to the complaint on August 12, 1991. A pretrial conference was held on October 2, 1991 and the case is now in discovery. Mr. Lawton's demand is for reinstatement and for actual and enhanced damages in the amount of \$500,000. The Company denies that Mr. Lawton's termination was wrongful or that it otherwise wrongly caused him harm and the Company intends to vigorously defend the case and does not believe a recovery against the Company is likely.

Regulatory Uncertainties

On October 10, 1991, the OTS took possession of the assets, property and business of Numerica and Home. The Federal Deposit Insurance Corporation was appointed as the receiver for Numerica, while the Resolution Trust Corporation was appointed the receiver for Home. Certain assets, deposits and liabilities of Numerica and other banks that were also placed in receivership on October 10, were then transferred to New Dartmouth Bank. The receiver for Home has transferred certain assets, deposits and liabilities of Home to Home Bank Federal Savings Association. While the Company has not received any formal demands or claims against it from either the FDIC or the RTC, it is not known whether the liquidation process underway related to Numerica or Home will result in any demands or claims by the FDIC or RTC against the Company.

As a result of these regulatory actions, the Company, by operation of law, no longer is a savings and loan holding company. The Company has notified the OTS formally of the fact and has requested that the OTS formally acknowledge the deregistration of the Company. The Company, at the request of the OTS, has completed certain forms and provided certain information to the OTS and has recently been notified that the deregistration process will begin following the resolution of the Company's Supplemental Income Security Plan. The Company is currently discussing the termination of this plan with the FDIC and the RTC. The OTS has indicated that they will adhere to the guidance from these regulatory agencies in the resolution of this issue. The Company believes that following the resolution of this issue that the OTS will formally acknowledge that the Company is no longer a savings and loan holding company and that ongoing regulatory supervision will no longer be provided.

In connection with the formation of the Company and the acquisition of Home, the Company was requested by the OTS to stipulate to a Regulatory Capital Maintenance Resolution. The Stipulation required, among other things, that the Company provide sufficient capital to Numerica and Home to enable them to maintain compliance with regulatory capital requirements during the time that the Company controlled both entities. At the time that Numerica and Home were placed into receivership by the OTS, neither institution was in compliance with existing regulatory requirements and the Company did not have sufficient financial resources to enable these entities to achieve regulatory capital compliance. While nothing has been initiated to date, the regulatory agencies could seek to initiate administrative or judicial proceedings against the Company for non-compliance with this Stipulation.

NUMERICA FINANCIAL CORPORATION (Parent Company Only)

Part II OTHER INFORMATION

Item 1. Legal Proceedings (Continued)

Regulatory Uncertainties (Continued)

On August 2, 1991, the OTS directed the Company to discontinue retirement benefit payments to the retirees under the Numerica Financial Corporation Supplemental Income Security Plan (the "Security Plan"). Further, the OTS directed the Company to cease any additional premium payments on the life insurance policies used to fund the Security Plan obligations. The Company complied with these directions and maintained a steady dialogue with the OTS in an effort to terminate the Security Plan and amicably resolve this matter.

On October 31, 1991, the OTS directed the Company to liquidate the life insurance policies and pay the cash values to the receivers for Numerica and Home. In light of the Company's obligations to the Security Plan participants/beneficiaries, the Company has not complied with this direction. The Company has and continues to work diligently to resolve this matter. The Company is currently discussing the Security Plan resolution with the receiver for Numerica (the FDIC) and the receiver for Home (the RTC). The OTS has recently indicated that they will adhere to the guidance provided by these regulatory agencies.

Two former employees have recently demanded payment from the Company under the Security Plan. In addition, one retired participant has recently passed away. The OTS directive to discontinue payments to the retired participants/beneficiaries has subjected these individuals to considerable hardship. It is likely that litigation could ensue if the Company is unsuccessful in obtaining regulatory approval to terminate the Security Plan.

Items 2-5. Not Applicable.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10. Employment and Retention Agreement dated March 25, 1992 between David A. Heaberlin and the Company

(b) Reports on Form 8-K

None

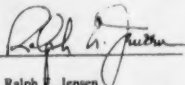
NUMERICA FINANCIAL CORPORATION (Parent Company Only)

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

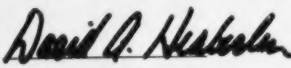
NUMERICA FINANCIAL CORPORATION

MAY 4, 1992

By: _____


Ralph E. Jensen
President and
Chief Executive Officer

By: _____


David A. Heaberlin
Executive Vice President
Chief Financial Officer
Principal Accounting Officer

EMPLOYMENT AND RETENTION AGREEMENT

EMPLOYMENT AND RETENTION AGREEMENT made as of the 25 day of March, 1992, by and between David H. Heaberlin ("Employee") of Merrimack, New Hampshire, and Numerica Financial Corporation ("NFC"), a financial services corporation having a principal office at Independence Plaza, 15 Constitution Drive, Bedford, New Hampshire.

WHEREAS, NFC originally contracted and agreed to employ Employee and Employee agreed to be employed by NFC, commencing August 14, 1990, as Executive Vice President and Chief Financial Officer under the terms of a Change of Control and Relocation Payment Agreement; and

WHEREAS, the Office of Thrift Supervision expressly reviewed and approved the Change of Control and Relocation Payment Agreement and Employee's employment in August, 1990;

WHEREAS, Employee has fully and faithfully performed the services and executed the duties and responsibilities set forth in the Change of Control and Relocation Payment Agreement;

WHEREAS, the "change of control" envisioned and anticipated in the referenced Change of Control and Relocation Payment Agreement has now occurred with the resolution of Numerica Savings Bank on October 10, 1991;

WHEREAS, NFC requires and has specifically requested the continued services and employment of Employee to discharge its

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obligations and responsibilities in the wind-down of the corporation;

NOW, THEREFORE, in consideration of the mutual covenants hereinafter described and other good and valuable consideration, receipt of which is hereby acknowledged, the parties agree as follows:

1. Employment. NFC hereby employs Employee and Employee hereby accepts employment, from the date of this Agreement and continuing until April 15, 1992 (said period of time being herein referred to as "Term") upon the terms, conditions and provisions as set forth herein. This Agreement may be subject to extensions upon the mutual written consent of the parties hereto.

2. Duties of Employee. Employee shall also be employed by NFC as its Executive Vice President, Secretary, Chief Financial Officer and Treasurer. In such capacities, Employee shall be responsible for carrying out all of the duties normally attendant to such positions and such other duties and obligations as may be reasonably required by NFC's Board of Directors. Without limiting the foregoing, Employee shall be specifically required during the Term of this Agreement to timely and accurately complete third quarter 1991, year-end 1991 and first quarter 1992 financial statements for the corporation. If Employee's employment is extended by mutual written agreement beyond April 15, 1992, he shall have responsibility for completing quarterly financial statements during such extension of his employment. Employee shall also be required to prepare and file all necessary

financial reports and documents with the Securities and Exchange Commission, the banking authorities and other governmental agencies. Employee shall further devote all of his time and energies to the performance of his duties and obligations hereunder, which he shall carry out in good faith and in a manner that is loyal to NFC.

3. Compensation. During the Term of this Agreement, Employee shall be entitled to receive the following compensation:

(a) Base Salary. NFC shall pay to the employee the sum of \$12,083 per month payable weekly beginning October 16, 1991:

(b) Retention Incentive Payments. NFC shall pay to the Employee retention incentive payments equal to \$112,500 in equal monthly installments of \$18,750 as follows:

October 15, 1991	\$18,750.00 (received)
November 15, 1991	\$18,750.00
December 15, 1991	\$18,750.00
January 15, 1992	\$18,750.00
February 15, 1992	\$18,750.00
March 15, 1992	\$18,750.00

(c) Benefits. NFC shall pay Employee the sum of \$2,175 per month payable on or before the 15th of each month to purchase benefits, in his sole discretion, comparable to those provided under the Change of Control and Relocation Payment Agreement dated August, 1990. Employee acknowledges that NFC will provide no benefits to Employee other than as set forth in this Section 3.

4. Termination of Agreement. It is intended that this Agreement not terminate prior to April 15, 1992; and in fact, this Agreement may be further extended by mutual written agreement of the parties as hereinafter provided. For purposes of this Agreement and any extension thereof, termination of the Employee's employment with NFC shall be deemed "without cause"

unless such termination is occasioned upon one of the following events:

- (a) Employee's death or disability;
- (b) Employee's voluntary resignation or voluntary cessation of performance of duties without the prior written consent of NFC's Board of Directors;
- (c) Material dereliction in the performance of Employee's duties;
- (d) Employee's willful violation of any law, rule, final cease and desist order or regulation (other than traffic violations or similar offenses) or any other action which, in the reasonable opinion of NFC's Board of Directors, brings NFC into disrepute;
- (e) Employee's incompetence or unsatisfactory performance as determined in accordance with the regular evaluation procedures of NFC;
- (f) Gross or willful misconduct or material breach of any of the terms and conditions of employment by the Employee;
- (g) Fraud, misappropriation, embezzlement or other act of personal dishonesty by the Employee;
- (h) Employee's intentional failure to perform stated duties; or
- (i) Employee's breach of fiduciary duty involving personal profit.

Upon any termination of this Agreement upon any event specified in this Section 4 prior to the end of the Term, Employee shall have no further right to compensation; and NFC shall have no further obligations to Employee, and all employment benefits shall cease. Upon any termination of this Agreement resulting from any event specified in Paragraphs (b), (c), (d), (f), (g), (h) or (i) of this Section 4 prior to the end of the Term, Employee shall be obligated to return to NFC all retention

incentive payments received pursuant to Section 1(b) of this Agreement. Upon termination of this Agreement prior to the end of the Term for any reason not set forth above, Employee shall be entitled to receive the amounts payable hereunder through the end of the Term.

5. Modification of Term of Employment. The parties, by mutual written agreement, may elect to extend or shorten the term of employment described herein. Any such extension or reduction shall be on such terms and conditions as the parties may mutually agree upon.

6. Legal Fees and Expenses. Upon presentation of appropriate bills, invoices and/or other records, NFC shall be obligated to promptly reimburse Employee, or pay directly, at Employee's option, all legal fees and expenses incurred by Employee in connection with or associated with, directly or indirectly, the negotiation, preparation and execution of this Agreement; provided that in no event shall NFC's obligation hereunder exceed \$7,500.

7. Successors. This Agreement shall inure to the benefit of and be binding upon the successors to NFC, but shall be personal to the Employee and shall not be assignable by him.

8. Governing Law. The provisions of this Agreement shall be governed by the laws of the State of New Hampshire.

9. Release. At the conclusion of the Term of this Agreement, ^{but no later than April 17, 1992} provided NFC has fully performed hereunder, Employee shall be required to execute a general release in favor of NFC

and all its affiliates, past or present, from and against all obligations, rights or entitlements arising out of or related to, directly or indirectly, his employment by NFC. Specifically, but without limitation, such release would discharge NFC from any and all obligations it may have to Employee associated with or arising from, directly or indirectly, the Change of Control and Relocation Payment Agreement dated August, 1990. Such release would not apply to any extension of Employee's employment by mutual agreement of parties after April 15, 1992.

10. Entire Agreement. This Agreement contains the entire understanding between the parties hereto and may be changed only by an agreement in writing subject to the prior approval of the Board of Directors of NFC. This Agreement supersedes all prior employment contracts with Employee, including the Change of Control and Relocation Payment Agreement dated August 14, 1990, and executed in December, 1990. However, if NFC breaches the terms and conditions of this Agreement, employee shall have the right, at his election, to reinstitute the terms, conditions and provisions of the referenced Change of Control and Relocation Payment Agreement.

IN WITNESS WHEREOF, Employee and NFC, by its President and Chairman, have executed this Agreement all as of the day and year first above written.

William A. Dellacava
Witness

David H. Heaberlin
David H. Heaberlin

NUMERICA FINANCIAL CORPORATION

Dellacava
Witness

Dellacava
Witness

By: Ralph E. Jensen
Ralph E. Jensen, President

John J. Reilly, Jr.
John J. Reilly, Jr., Chairman